Turning Villains into Victims

Finance Capital and Greece

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Highlights of the EU-Greece Deal

- 3rd Austerity Package since 2010 to pay off Greece's 344 billion sovereign debt (US$377 billion)
- In return for 86 billion euro loan, pension cuts, wage cuts, new taxes
- 90 per cent of loan will find its way back in debt service to Greece's creditors—European Central Bank, International Monetary Fund, and German and French banks.

Likely Impact of Deal

The last two austerity packages have resulted in GDP falling by 25 per cent since 2012, unemployment rising to 26 per cent of work force, with youth unemployment at a mind-numbing 52 per cent.

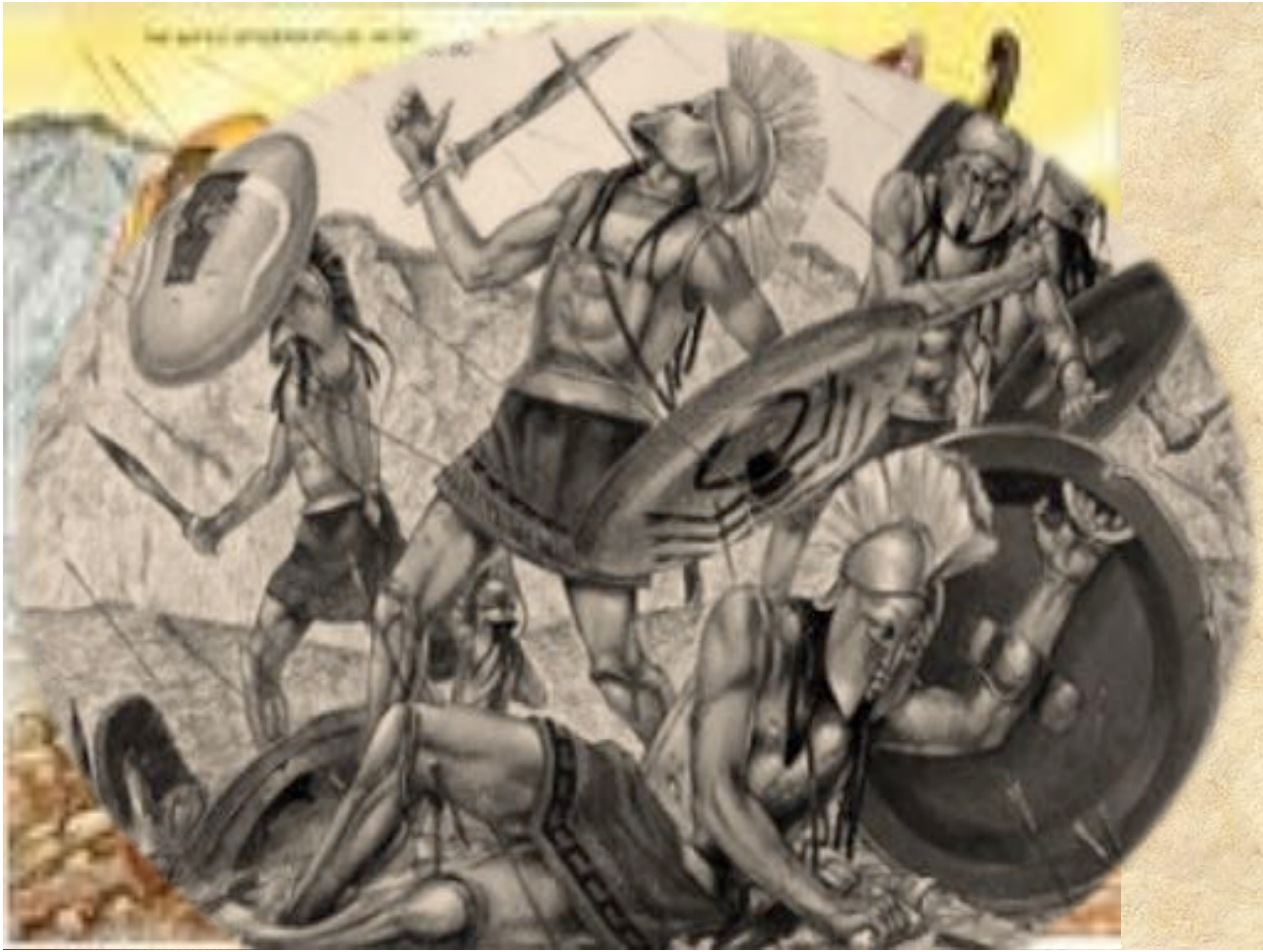
The IMF admitted that it had not anticipated the extent of the damage wrought by the austerity straitjacket Greece has been subjected to since 2010.

The draconian measures in this new deal are more than likely to deepen the depression by killing off any rise in domestic demand necessary for the economy to grow.

Why did the German-led Eurozone impose such crushing conditions on Greece?

- To save the European financial elite from the consequences of their irresponsible policies. As Karl Otto Pohl, former head of Germany's Bundesbank admitted, the Eurozone policy toward Greece is about "protecting German banks, but especially the French banks, from debt write-offs."

- To dissuade others, like the Spanish, Irish, and Portuguese, from revolting against debt slavery.



The debate on the Left is: Which of these two figures is the genuine heir of Leonidas, the Spartan?

Reversing the G20 Pittsburgh Consensus

- The subjugation of the Greeks is the latest victory of finance capital since it began its scorched earth counteroffensive against forces seeking to constrain and regulate it for bringing about the financial crisis that broke in 2008.

- It is the latest step in the reversal of the Pittsburgh Declaration of the Group of 20 leaders in 2009 which said, “Where reckless behavior and a lack of responsibility led to crisis, we will not allow a return to banking as usual.”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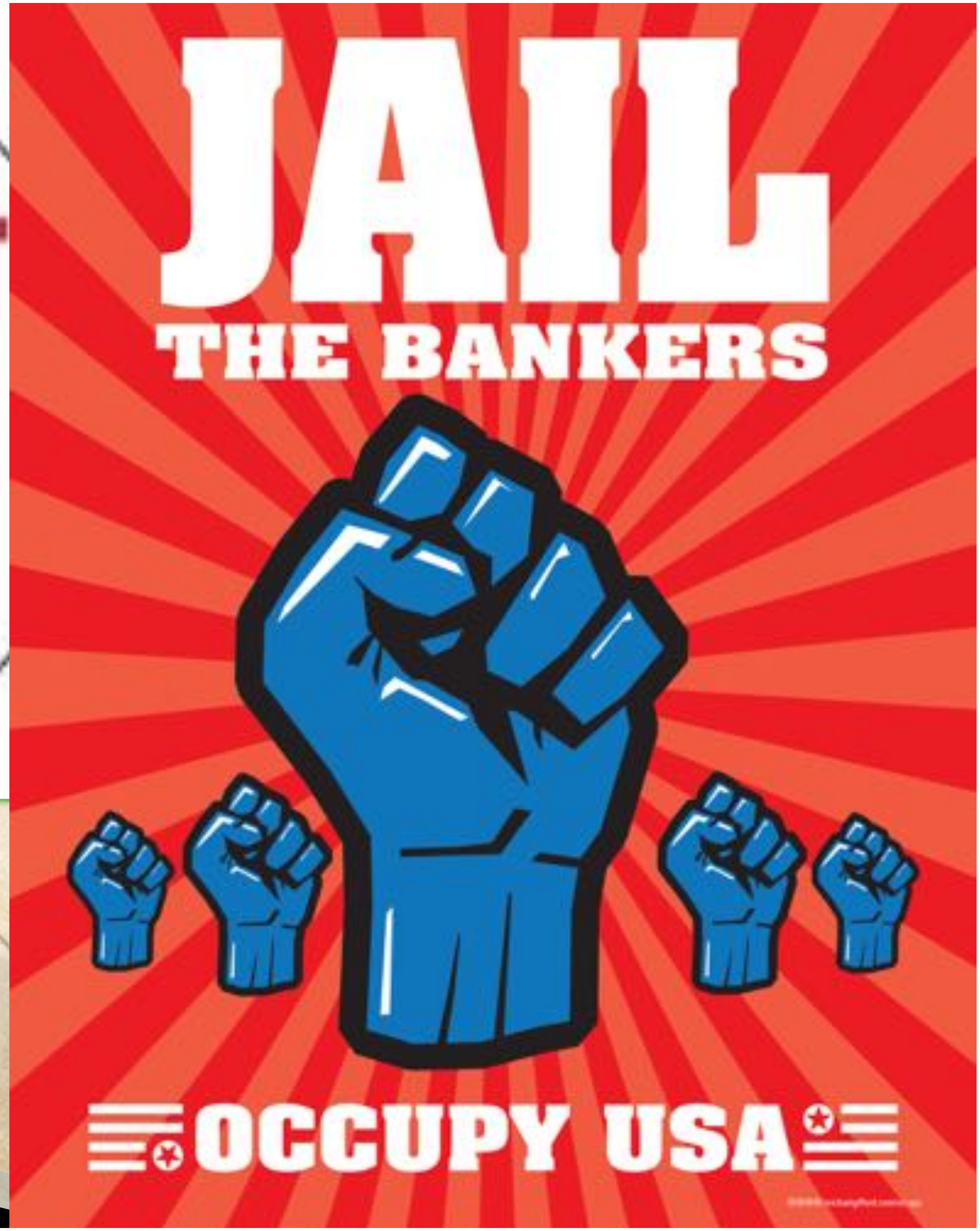

JAIL
THE BANKERS
OCCUPY USA

- In the US, Wall Street was able to get the government to spend over $700 billion to bail out the giant institutions whose balance sheets were fatally impaired by toxic subprime assets, instead of nationalizing them, when the financial crisis broke in 2008.
- Then in 2009 and 2010, they stripped the Dodd-Frank Wall Street Reform Act of 3 key items: downsizing the banks, institutionally separating commercial from investment banking, and banning derivatives, the investment instruments that triggered the crisis.

- Instrumental in fighting off efforts at effective regulation was the $344 million that Wall Street spent lobbying the US Congress in 2009, when legislators were taking up financial reform.
- Senator Chris Dodd, chairman of the Senate Banking Committee, alone received $2.8 million in contributions from Wall Street.
- It also helped Wall Street that key people in the new Obama administration, like Secretary of the Treasury Tim Geithner and Council of Economic Advisers head Larry Summers, had been proteges of the influential banker Robert Rubin, who acted as the bridge between Washington and Wall Street and led the deregulation of the financial industry in the 1990’s.


"Many people think Congress regulates Wall Street, but in fact it is Wall Street that regulates Congress."
- Sen. Bernie Sanders (I-Vt.)
EXCHANG

Shifting the blame

- It was, however, important for global finance not to simply be on the defensive but to take the offensive. It had, in short, to change the narrative about the causes of the crisis and shift the blame to someone else.

- This maneuver was most successfully executed in Europe.
- As in the United States, the financial crisis in Europe was a supply-driven-crisis, as the big European banks sought high-profit, quick-return substitutes for the low returns on investment in industry and agriculture, like real estate lending and speculation in financial derivatives, or placed their surplus funds in high-yield bonds sold by governments.

- In the case of Greece, German and French private banks held some 70 per cent of the country's 290 billion euro debt at the beginning of the crisis. German banks were great buyers of the toxic subprime assets from US financial institutions, and they applied the same enthusiasm to buying Greek government bonds. For their part, even as the financial crisis unfolded, French banks, according to the Bank of International Settlements, increased their lending to Greece by 23 per cent, to Spain by 11 per cent, and to Portugal by 26 per cent.

Euro-deception?

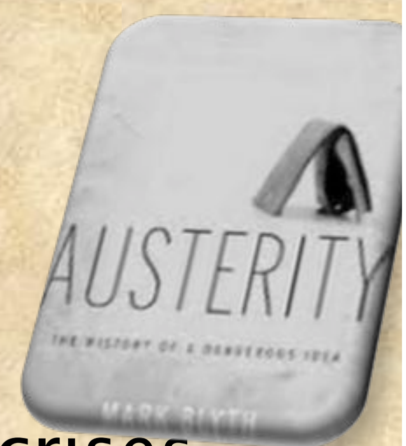
- Indeed, in their drive to raise more and more profits from lending to governments, local banks, and real estate developers, Europe's banks poured $2.5 trillion into Ireland, Greece, Portugal, and Spain. It is said that these countries' being in the eurozone "deceived" the banks into thinking that their loans were safe since they had embraced the same tough rules for membership in the same currency union to which Europe's strongest economy, Germany, belonged. More likely, however, a government's membership in the eurozone provided the much-needed justification for unleashing the tremendous surplus funds the banks possessed that would create no profits by simply lying in the banks' vaults.

- Greece’s debt in 2007, before the financial crisis, came to 290 billion euros, which was equivalent to 107 per cent of GDP. Yet, the banks did not show signs they were particularly worried about it then and continued to pour money into the country. When the financial crisis broke in the US, then spread to Europe, Greece’s GDP ratio rose to 148 per cent in 2010, which alarmed many. The creditors, European authorities, and the business press used the ensuing panic to focus the blame solely on unchecked government borrowing, completely suppressing the role played by irresponsible foreign creditors and the Greek private sector.

- Equally significant, the same forces used Greece's crisis to popularize an assessment that a sovereign debt crisis caused by profligate states had also overtaken Ireland, Spain, and Portugal, though these countries had public debt to GDP ratios that were rather low, and in the case of Spain (39.6) and Ireland (24.8), lower than Germany's (67.6)!

The Semi-sovereign state

- But were the states really profligate in their borrowing? Sovereign debt is debt that a state is responsible for paying off, and this includes the bad debt incurred by the private sector from foreign banks. Ever since the debt crises of the 1980’s authorities have enforced that rule that the state must assume responsibility for debt to international creditors that cannot be repaid by its private sector. In Spain, Ireland, and many other countries in financial turmoil it was the deadly alliance between foreign creditors and domestic investors that brought countries to their knees, not government borrowing.



- As Mark Blyth writes, "sovereign debt crises are almost always 'credit booms gone bust.' They develop in the private sector and end up in the public sector. The causation is clear. Banking bubbles and busts cause sovereign debt crises. Period. To reverse the causation and blame the sovereign for the bond market crisis, as policy makers in Europe have repeatedly done to enable a policy of austerity that isn't working, begs the question, why keep doing it."

Changing the narrative

- Why indeed? The answer is that this operation has promoted a strong counter-narrative about the causes of the financial crisis, where the banks are the victims while states are the villains, a narrative that enables the banks to simultaneously escape haircuts for their irresponsible lending and oppose the imposition of state restraints on their activities.

- The changed narrative, focusing on the "profligate state" rather than the unregulated private finance as the cause of the financial crisis, quickly made its way to the US, where it was used not only to derail real banking reform but to prevent the enactment of an effective stimulus program in 2010. Brandishing the image of the United States becoming like Greece if the government increased its debt load by going into deficit spending, the Republicans succeeded in bringing about an American version of the austerity programs that were imposed as the solution in Southern Europe.

- Christina Romer, the head of Barack Obama's Council of Economic Advisers, estimated that it would take a $1.8 trillion to reverse the recession. Obama approved only less than half, or $787 billion, placating the Republican opposition but preventing an early recovery. Thus the cost of the follies of Wall Street fell not on banks but on ordinary Americans, with the unemployed reaching nearly 10 per cent of the work force in 2011 and youth unemployment reaching over 20 per cent.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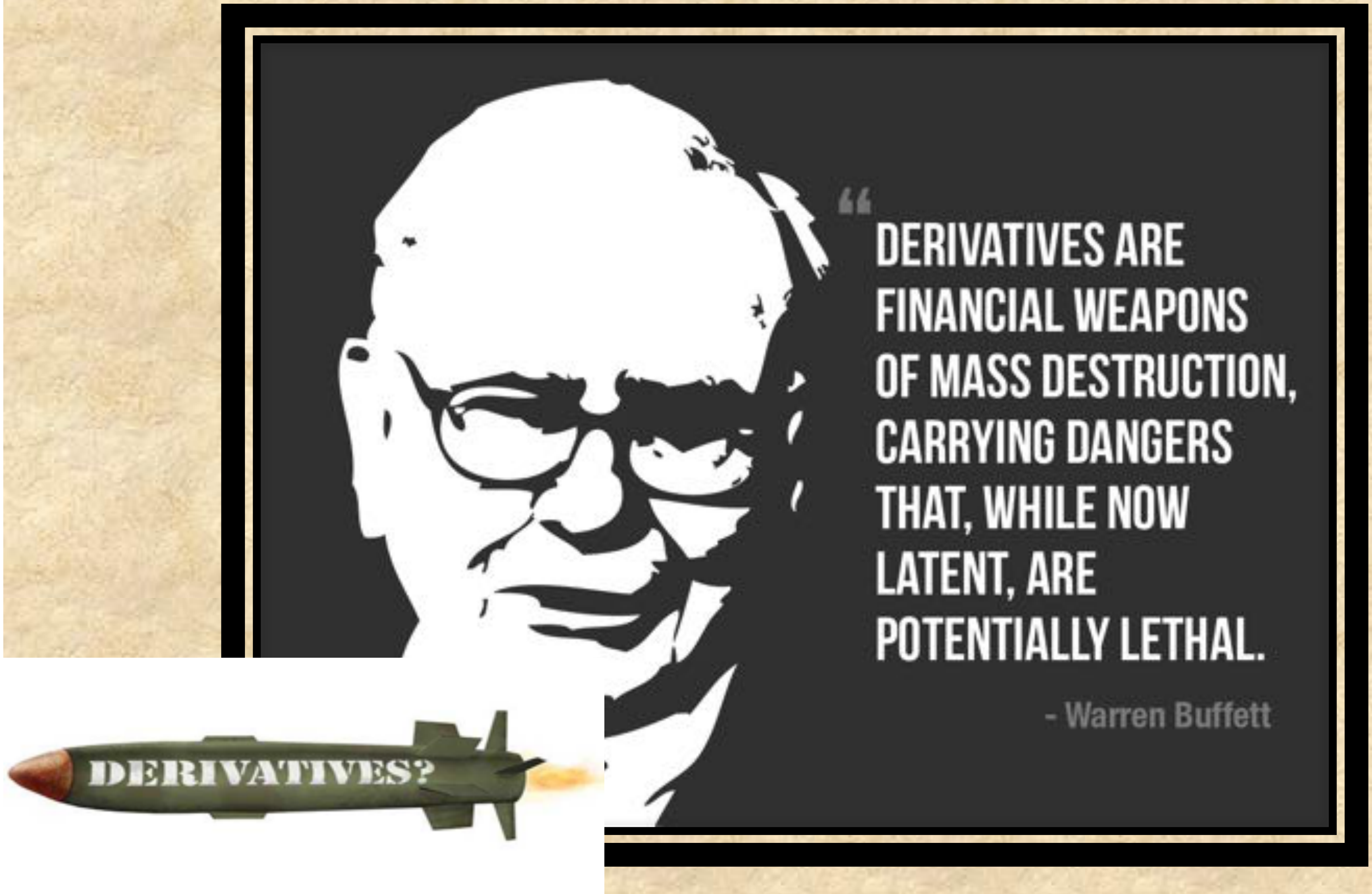
- Finance capital's success in halting reform, changing the narrative of the crisis, and having the people shoulder its costs is, however, likely to be a Pyrrhic one. The combination of deep austerity-induced recession or stagnation that grips much of Europe and the United States and the absence of financial reform is deadly. The prolonged stagnation and the prospect of deflation have discouraged investment in the real economy to expand goods and services.

- Thus the financial institutions have all the more reason to do what they did prior to 2008 that triggered the current crisis: engage in intense speculative operations designed to make super profits from the difference between the inflated price of assets and derivatives based on assets and the real value of these assets before the law of gravity causes the inevitable crash.

- With the move to reregulate finance halted, the creation of new bubbles is more than likely, what with derivatives trading continuing unabated owing to the lack of effective regulation. The non-transparent derivatives market is now estimated to total $707 trillion, or significantly higher than the $548 billion in 2008, according to analyst Jenny Walsh. “The market has grown so unfathomably vast, the global economy is at risk of massive damage should even a small percentage of contracts go sour.”
- The question then is not if but when another bubble will burst, and when this happens, it is unlikely that finance will again escape regulation.


"DERIVATIVES ARE FINANCIAL WEAPONS OF MASS DESTRUCTION, CARRYING DANGERS THAT, WHILE NOW LATENT, ARE POTENTIALLY LETHAL.
- Warren Buffett
DERIVATIVES?

Blowback

- The other blowback from finance capital's current triumph is political, and it is likely to unfold in Europe earlier than in the United States. The troika of finance capital, European Union, and Germany that executed Greece in full view of the international public is more than likely to heighten the strong anti-EU, anti-German, and anti-bank feelings that are coursing through Europe at this point

Who will benefit from the Eurozone's crushing of Greece?

- The question is: who will harvest these boiling currents of resentment and anger in the European body politic. With the radical left defeated--albeit heroically, in the fashion of Thermopylae--in the faceoff between Alexis Tsipras and German Chancellor Merkel, and with Social Democrats in Germany and throughout Europe reduced to being Angela's little helpers in aggressively promoting the interests of the banks, the most likely beneficiary of the dramatic events of the last few weeks will be the surging radical right, with its anti-EU, nationalist, and populist appeal

- Not surprisingly, the anti-immigrant chief of France’s National Front, Marine Le Pen, who increasingly laces her speeches with anti-capitalist, anti-globalization rhetoric, took up the cudgels for Greece in the recent face off. The EU, she declared “mocks and brushes aside the popular wish expressed in the Greek elections and it seeks to impose a policy of austerity, the continuity of a policy of austerity which the Greek people no longer want. She asked rhetorically, “[C]onfronted with the choice, who will win? Democracy or Euro-Dictatorship?”

President Le Pen in 2017?

Anti-immigrant
Anti-EU
Anti-euro
Anti-capitalist?

A worrisome addendum

- There are an estimated 30,000 OFWs in Greece. These compatriots are in danger of being subjected to more intense discrimination, expulsion, and physical attacks if Le Pen’s fascist comrades, Golden Dawn, come to po

The End